Missouri Pacific Railroad

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1975 Annual Report

Missouri Pacific Railroad Company

Transfer Agents

$1 Cumulative Convertible
Preferred Stock and Common Stock

United States Trust Company of New York
45 Wall Street
New York, N. Y. 10005

The Boatmen's National Bank of St. Louis
300 No. Broadway
St. Louis, Mo. 63102

Registrars

$1 Cumulative Convertible
Preferred Stock and Common Stock

Manufacturers Hanover Trust Company
One Whitehall Street
New York, N. Y. 10015

St. Louis Union Trust Company
510 Locust Street
St. Louis, Mo. 63101

Dividend Disbursing Agent

$1 Cumulative Convertible
Preferred Stock and Common Stock

The Boatmen's National Bank of St. Louis

Annual Meeting of Stockholders
The Second Tuesday in May
General Offices
Missouri Pacific Building
St. Louis, Mo. 63103

Board of Directors

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■■**M. R. CHAMBERS**
Chairman of the Board and Chief Executive Officer, Interco Inc., manufacturer and retailer of various consumer products, St. Louis

■**SAM B. COOK**
President, The Central Trust Bank, Jefferson City, Mo.

ROBERT H. CRAFT
Director and Chairman of the Finance Committee, The Texas & Pacific Railway, Chicago & Eastern Illinois Railroad, New York

†**S. M. DIXON**
President, S.M. Dixon Construction Co., heavy construction, principally bridges and highways, Warren, Ark.

****HERBERT GUSSMAN**
Independent oil producer and investments, Tulsa

M. M. HENNELLY
Vice President and General Counsel, Missouri Pacific Railroad, Executive Vice President, Mississippi River Corp., St. Louis

*†**D. B. JENKS**
Chairman of the Board, Missouri Pacific Railroad, The Texas & Pacific Railway, Chicago & Eastern Illinois Railroad, Chairman of the Board and Chief Executive Officer, Mississippi River Corp., St. Louis

***JAMES M. KEMPER, JR.**
Chairman of the Board and President, Commerce Bancshares, Inc., Kansas City

W. S. KERR
Vice President and Business Manager, Northwestern University, Evanston, Ill.

†**J. M. LEATHERS**
Vice President, The Dow Chemical Co., Midland, Mich.

***J. H. LLOYD**
President and Chief Executive Officer, Missouri Pacific Railroad, The Texas & Pacific Railway, Chicago & Eastern Illinois Railroad, St. Louis

*††**THOMAS H. O'LEARY**
President, Mississippi River Corp., Chairman of the Finance Committee, Missouri Pacific Railroad, Vice President-Finance, The Texas & Pacific Railway, Chicago & Eastern Illinois Railroad. Mississippi River Corp. controls subsidiaries involved in railroad operations (Missouri Pacific System), production/transmission of natural gas, and cement manufacturing, St. Louis

***W. M. SHAPLEIGH**
President, Ralston Purina Co., diversified food processor, St. Louis

***HAROLD E. THAYER**
Chairman of the Board and Chief Executive Officer, Mallinckrodt, Inc., manufacturers of chemicals and pharmaceuticals, St. Louis

■**F. B. WADELTON**
President, The Insco Systems Corp., data processing services, Neptune, N.J.

*Executive Committee
†Finance Committee
■Audit Committee
**Chairman of Executive Committee
††Chairman of Finance Committee
■■Chairman of Audit Committee

Officers

D. B. JENKS
Chairman of the Board, St. Louis

J. H. LLOYD
President and Chief Executive Officer, St. Louis

M. M. HENNELLY
Vice President and General Counsel, St. Louis

J. A. AUSTIN
Vice President-Traffic, St. Louis

J. W. GESSNER
Vice President-Operation, St. Louis

J. G. GERMAN
Vice President-Engineering, St. Louis

J. M. TOLER
Vice President-Transportation, St. Louis

D. L. MANION
Vice President-Administration, St. Louis

T. D. RODMAN
Vice President and Controller, St. Louis

J. E. ANGST
Vice President, St. Louis

J. G. SHEPPARD
Vice President, Houston

H. S. VIERLING
Vice President, Chicago

C. J. MAURER
Secretary and Treasurer, St. Louis

Missouri Pacific System Annual Report

for the year ended December 31, 1975

Consolidated Financial and Operating Highlights

	1975	1974
Income and Expense Items:		
Operating Revenues	**$888,546,000**	$889,857,000
Operating Expenses	**667,694,000**	673,315,000
Operating Ratio (Rail Line)	**73.5%**	74.2%
Income Available for Fixed Charges	**113,263,000**	114,342,000
Times Fixed Interest Earned	**3.3**	3.6
Net Income	**46,715,000**	49,722,000
Earnings Per Common and Common Equivalent Share	**3.74**	3.98

See Page 19 for Information Relating to the Calculation of Earnings Per Share

	1975	1974
Financial Position:		
Gross Capital Expenditures	**$103,959,000**	$104,800,000
Depreciation and Retirements Charged to Income	**45,334,000**	39,297,000
Working Capital	**24,190,000**	18,755,000
Long Term Debt	**740,746,000**	724,845,000
Stockholders' Equity	**465,842,000**	432,888,000
Freight Statistics:		
Miles of Railroad Operated	**11,718**	11,738
Revenue Ton Miles (1,000's)	**42,864,865**	49,105,831
Revenue Per Ton Mile (cents)	**1.93**	1.66
Employees:		
Total Amount of Payroll	**$335,117,000**	$341,301,000
Average Annual Wages	**15,781**	14,483
Average Number of Employees	**21,235**	23,565

To Our Stockholders:

The Missouri Pacific System recorded the second-highest earnings in its 124-year history during 1975, a year which found railroad industry earnings falling to the lowest level since the Depression of the 1930's.

Missouri Pacific System consolidated net income for 1975 was 6 per cent below the record year of 1974 but 51.2 per cent above the figure for 1973, a record year itself prior to 1974. Consolidated revenues for 1975 were about equal to 1974 revenues.

MoPac's strong showing in 1975 was made possible by prudent expense reductions early in the year without lowering the quality of service and by improved traffic in several important markets during the second half of the year.

Freight rate increases granted during the year ultimately amounted to about 13 per cent on the average shipment. The additional revenue resulting from the increases was, however, offset by increased fuel costs and price increases for other supplies and materials as well as two wage increases for union employees totaling 15 per cent.

The Missouri Pacific outperformed the industry as a whole in terms of maintaining earnings and revenues at a profitable level. At the same time, MoPac carried out a capital improvements program of $104-million. MoPac also increased its share of the rail transportation market in competition with other major western railroads. The year was marked by excellent results in attracting new on-line industry and significant growth in coal traffic.

In contrast, the railroad industry posted its most disappointing financial results since the 1930's. Net income fell from $688.5-million in 1974 to about $141-million in 1975.

I remain optimistic, however, about the near-term and long-range prospects for both the railroad industry and the Missouri Pacific System.

During 1975, MoPac made significant progress in implementing its Transportation Control System and received a Federal Railroad Administration contract for development of an automated freight car scheduling system for use by the railroad industry. A labor-management team working at MoPac's St. Louis Terminal has found ways to increase productivity. New methods have been developed by our Operating Department to improve train schedules and to provide more efficient utilization of freight cars and locomotives.

New contracts were negotiated during 1975 with all railroad brotherhoods which will carry into 1978 and which provide up to 41 per cent in wage increases and improved fringe benefits. Cooperation between labor and management has shown improvement in recent years.

The merger of The Texas and Pacific Railway and the Chicago & Eastern Illinois Railroad, both majority-owned subsidiaries, into the Missouri Pacific Railroad still awaits final approval by the Interstate Commerce Commission. Stockholders of the three companies previously approved the merger in 1974. It is anticipated that the merger will be consummated in 1976.

I remain confident that MoPac will show improvement in 1976, its 125th year of operation, if economic forecasts of an overall rise in the national economy prove to be accurate.

John H. Lloyd
President and
Chief Executive Officer

February 23, 1976

Financial

Earnings and Revenues

Consolidated net income for the Missouri Pacific System in 1975 totaled $46.7-million on consolidated revenues of $888.5-million. In comparison, consolidated net income in the record year of 1974 was $49.7-million on revenues of $889.9-million. In 1973, previously the second-best year, consolidated net income was $30.9-million and revenues totaled $753.6-million.

C&EI Results

The figures of the Missouri Pacific System include the Chicago & Eastern Illinois System. In 1975, the C&EI had consolidated net income of $10.3-million and consolidated revenues of $60.4-million. The comparable 1974 figures were net income of $8.8-million on consolidated revenues of $56.4-million.

Annual Report Form 12-K to Securities and Exchange Commission

Interested stockholders may obtain a copy of the Missouri Pacific System annual report, Form 12-K, and a description of its exhibits filed with the Securities and Exchange Commission for the year ended December 31, 1975. A copy of this report may be obtained upon request after April 30, 1976, at no charge by writing to:

Office of Vice President and
Controller
Missouri Pacific Railroad Co.
210 N. 13th Street
St. Louis, Mo. 63103

A copy of the exhibits can be obtained by marking a checklist, which will be enclosed with our reply, and prepayment of a reasonable fee.

Dividends and Market Value

The full annual dividend of $1.00 per share was paid on the Missouri Pacific Preferred Stock. Dividends of $1.20 were paid on the Common Stock in 1975, an increase from the $1.10 paid in 1974.

Listed below are quarterly data showing dividends paid and the high and low stock market prices for both classes of stock during 1975 and subsequent to recapitalization in January, 1974.

	QUARTER			
	First	Second	Third	Fourth
Preferred Stock				
Dividends Paid				
1975	25¢	25¢	25¢	25¢
1974	25¢	25¢	25¢	25¢
New York Stock Exchange—				
1975				
High	$14¾	$17½	$16¼	$18¼
Low	10¾	13⅝	13¼	13¼
1974				
High	17⅜	16¼	15¼	13⅞
Low	15¾	13⅝	10	10
Common Stock				
Dividends Paid				
1975	30¢	30¢	30¢	30¢
1974	25¢	27½¢	27½¢	30¢
American Stock Exchange—				
1975				
High	$15	$17½	$16⅝	$18½
Low	11	13¾	13¼	14
1974				
High			11¾	14
Low			10¾	10
Over-the-Counter—				
1974				
Bid				
High	16¾	16⅜	14⅞	
Low	15	13¼	9½	
Ask				
High	17⅜	17	15⅜	
Low	15⅝	13¾	10½	

Sales/Marketing/Service

MoPac Outperforms Rail Industry

The economic recession of 1975 did not affect MoPac as severely as it did the railroad industry nationally. Missouri Pacific operating revenues were less than 0.2 per cent below the all-time record level of 1974. Nationally, railroad operating revenues declined 4 per cent. MoPac increased its share of the rail freight market in the Central-Western districts from 16.6 per cent to 17.3 per cent.

MoPac freight revenues increased slightly as a result of freight rate increases but revenue ton-miles declined by more than 12 per cent from 1974. The decrease in ton-miles was due primarily to lower levels of business in several major markets served by MoPac. However, changes in traffic patterns also played a significant role in some commodity areas. For example, much of the heavy grain harvest moved only from country elevators to interior terminal elevators without the subsequent movement to Gulf ports which was experienced in 1973 and 1974. Metal ore traffic also moved shorter distances in 1975 than in previous years. Lumber revenue ton-miles declined more sharply than lumber revenue largely as a result of lower production levels along the Pacific Coast with a subsequent loss of long-haul lumber movements.

Coal and Auto Traffic Grows

Coal traffic, both from on-line mines and coal fields in the Western United States, represents a rapidly-growing market for MoPac as the nation rushes to utilize this form of energy in the face of gas and oil shortages. MoPac coal revenue ton-miles increased 32 per cent in 1975 while coal revenue soared more than 33 per cent above the level of 1974.

Other Markets

Automobile and auto parts traffic recorded an increase of 3 per cent in revenue ton-miles while revenues increased 13 per cent. Chemicals, sharply depressed during the first three quarters, strengthened in the fourth quarter but still registered a decrease of 16 per cent in revenue ton-miles and 4.6 per cent in revenues. Food products, metal ores and aggregates, while showing declines in revenue ton-miles ranging from 5 to 17 per cent, posted gains in revenues of from 4 to 6 per cent.

International traffic continued to provide a significant share of revenue. Continued gains were made in traffic moving between Canada and Mexico over the Missouri Pacific single-system route between Chicago and the Texas gateways to Mexico.

Strong Industrial Development

During 1975, 177 firms invested an estimated $862-million in new and expanded facilities along MoPac. These companies will provide more than 100,000 additional carloadings annually when they are in full production, thus assuring another source of future revenue growth.

Since 1970, 1,100 firms have invested $3.4-billion in on-line facilities. Missouri Improvement Company, a subsidiary, also began development of the first 112 acres of a planned 520-acre industrial park at West Memphis, Ark.

Rate Department Reorganized

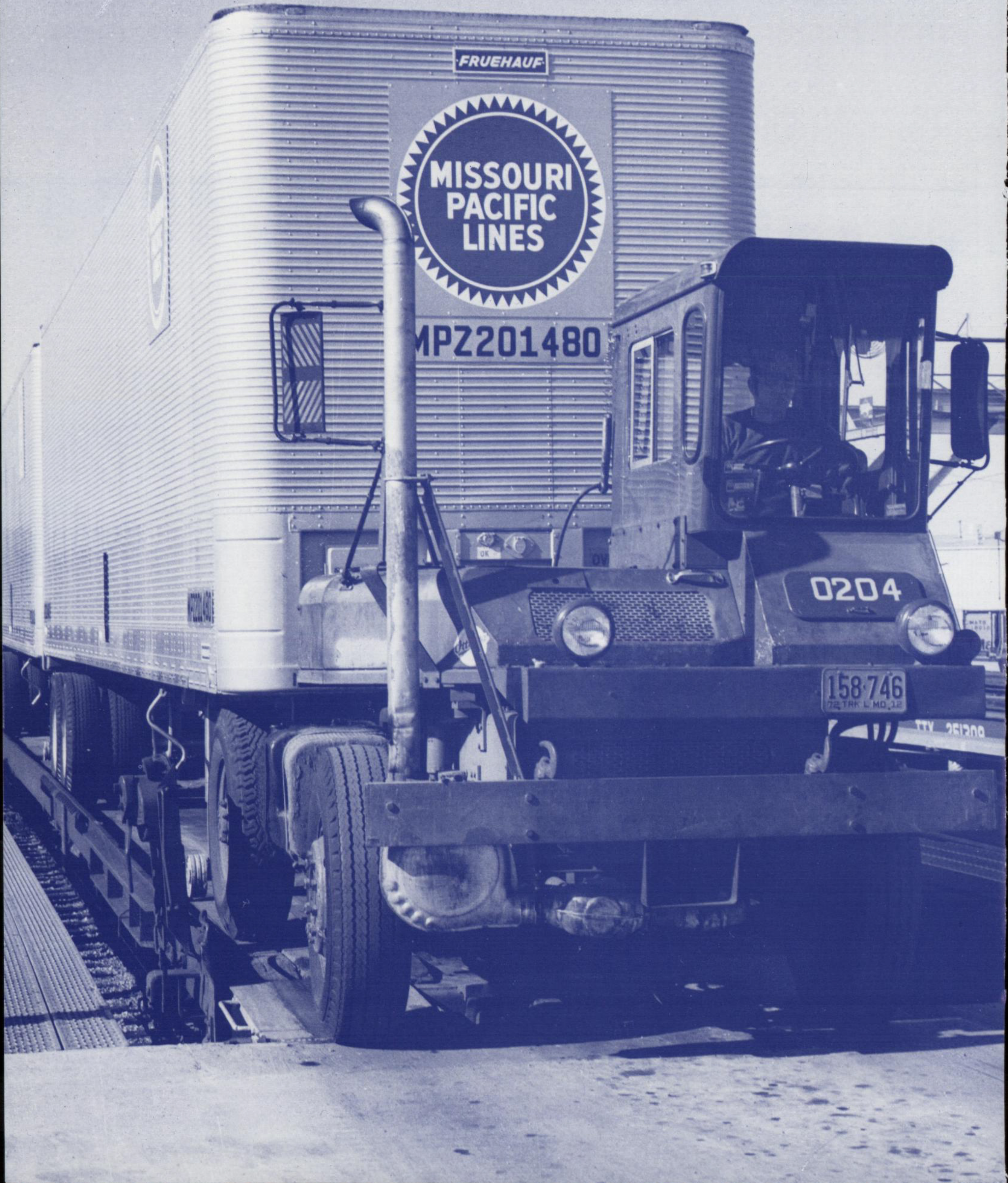
Late in the year, the Pricing and Divisions Department was reorganized along specific commodity lines. As a result, pricing in each major commodity area will be the responsibility of specialists with expert knowledge of major commodity markets. In addition, the department established numerous volume and incentive rates covering many commodities.

New Trains

Several additional unit train operations were inaugurated in 1975 to improve car utilization and attract additional revenue from shippers who can benefit from the economies of this service. Included were unit trains for coal, grain and crushed stone.

A successful new piggyback run-through service, called the "Dixie Whistler," was established between Chicago and Southeast points with the Southern Railway. The CF train was inaugurated to handle auto parts between Chicago and Arlington, Texas, and to strengthen the rail link between Canada and Mexico.

Improvements also were made in the schedule of the "Whirlwind" run-through service with the Santa Fe between the Southeast and the West Coast. Service to Louisiana points was improved by preblocking all cars at Kansas City, Memphis and Chicago for set-out at Bald Knob, Ark., to be picked up by St. Louis-New Orleans trains that bypass terminals at Little Rock and Alexandria, La. This represents a new application of a system that has proved efficient at other points on the system.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Intermodal Operations

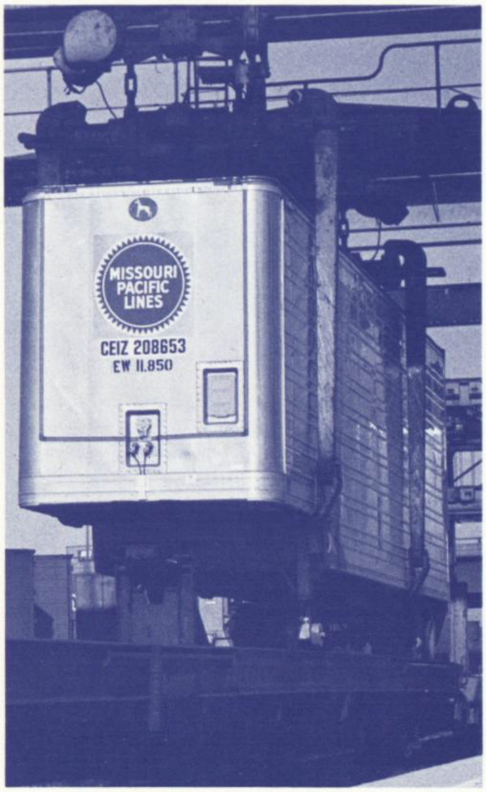
Truck Lines Gain New Rights
MoPac's two trucking subsidiaries, Missouri Pacific Truck Lines and Texas & Pacific Motor Transport, obtained a landmark decision from the ICC in their continuing efforts to eliminate artificial restrictions in their motor carrier operating certificates. This new order, implemented on June 1, 1975, permits our truck lines to utilize motor billing and rates competitive with other motor carriers instead of substitution for rail service, a major handicap to railroad owned trucking companies in the past.

Handling of interstate traffic is now compatible with intrastate traffic thus improving operating efficiency. Operating rights also were improved in areas of Texas and Kansas. Eighty-six new units of highway equipment were acquired in 1975.

Piggyback Trend Mixed
MoPac increased its share of the national piggyback market in 1975, from 6.8 per cent in 1974 to 7 per cent. Overall, MoPac piggyback loadings declined about 16 per cent compared to a decrease nationally of more than 19 per cent. It should be noted, however, that MoPac expanded its piggyback base substantially in 1974 with an increase of more than 20 per cent in trailerloadings at a time the industry as a whole was experiencing a slight decline. Traffic was stronger during the fourth quarter of 1975.

New piggyback ramps were constructed at Hesston, Kans. and Freeport, Texas. Piggyback facilities at Chicago were expanded.

The Chicago & Eastern Illinois piggyback traffic increased slightly from 1974. The C&EI benefited from additional traffic attracted through inauguration of the new run-through service between Chicago and Southeast points.



Container cargo decreased 14.9 per cent in 1975 from 1974 due to some loss of mini-bridge traffic. Despite the decrease, the base was broadened to include many more individual shippers and receivers. This is reflected in a 32 per cent increase in our non-mini-bridge cargo.

Airfreight Profitable
Missouri Pacific Airfreight showed gains in both revenues and profit in 1975. In January, 1976, Missouri Pacific Airfreight extended its outbound airfreight forwarding operations to Chicago and was preparing to launch its first off-line outbound station in San Francisco.

MISSOURI PACIFIC LINES
FORD

Modernization

Capital Improvements Budget
The Missouri Pacific invested $104-million in capital improvements during 1975.

The 1975 equipment program included acquisition of 2,591 freight cars and 80 diesel locomotives, 38 of the locomotives being leased.

Track Upgraded
Track upgrading included laying 290 miles of rail, most of it welded rail; insertion of 954,000 crossties; application of 1,215,000 cubic yards of ballast, and the resurfacing of 5,900 miles of track, roughly equivalent to half MoPac's mainline track. In addition, 33 new bridges totaling 3,484 lineal feet were constructed and hot box and dragging equipment detectors were installed at 23 additional locations.

Cost savings were achieved in several sectors of maintenance. Among the most significant were the reorganization of 26 tie crews into six highly-mechanized, highly-productive crews and pre-fabrication of track panels at North Little Rock which resulted in a cost savings of 70 per cent.

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SYSTEM

New Projects
A new central distribution terminal was completed at Wichita, Kans. The terminal provides space for trucking and airfreight forwarding operations as well as piggyback and container services. It includes offices for both railroad and trucklines operating and sales personnel, a customer service center and computer facilities. The new terminal was built adjacent to MoPac rail yards to provide centralization of all services at one location.

A car repair shop was completed at St. Louis and a 512,000-gallon fuel storage tank was constructed at Avondale, La. Diesel shop exteriors at Fort Worth and St. Louis were modernized and a passenger station at Laredo was renovated and converted to an office building. Facilities for an uninterruptable power supply were installed at St. Louis to insure continuous operation of MoPac's computer center in the event of an emergency.

In 1976, it is anticipated that capital expenditures will again top $100-million. Since 1962, MoPac management has invested $1.1-billion in modernization of equipment and properties.

TCS/Traffic Control System

Phase Four Cutover

MoPac reached a major goal in implementation of its Transportation Control System (TCS) on November 30 when it made a system-wide cutover to Phase Four of TCS. TCS, a $41-million program utilizing high-speed electronic communications and a vast computer complex, is designed to improve service in numerous ways to shippers and to upgrade overall efficiency and control of the transportation operation.

Phase Four provides the field data and communications base necessary for implementation of future phases of TCS. It also provides a continuous updating on the location of every freight car and train on system lines. The cutover to Phase Four was preceded by an intensive and extensive training program for about 8,700 employees utilizing the system. This included 11 weeks of training and study at St. Louis for a 250-member implementation and field-training team. The success of this training effort was a primary factor in the massive cutover effort being achieved with a minimum of problems.

YATS Expanded

YATS, a TCS subsystem used to maintain a computerized perpetual track inventory of all cars in a terminal, was extended to Kansas City, Mo. and Coffeyville, Kans., Laredo, Texas, and Settegast Yard in the Houston Belt & Terminal complex. Numerous refinements were made in the YATS systems previously implemented at six other locations.

MoPac is also providing computer programs and consulting support to the National Railways of Mexico in their efforts to install YATS at their Valle de Mexico Terminal in Mexico City.

FRA Awards Contract

The Federal Railroad Administration awarded MoPac a $5.5-million contract in October for development of an automated car scheduling system for the railroad industry. Automated car scheduling is a primary goal of TCS. In making its award, the FRA commended MoPac for its pioneering efforts and pointed out that while other railroads have spent as much money in this area, only MoPac has accomplished all steps necessary as a foundation for precise scheduling of individual freight cars, loaded and empty, from dock to dock.

Legal/Legislative

Merger Awaits ICC Approval

The merger of The Texas and Pacific and Chicago & Eastern Illinois railroads into the Missouri Pacific Railroad, overwhelmingly approved by stockholders in October, 1974, is before the Interstate Commerce Commission for final approval. Only limited opposition was expressed at an ICC public hearing held in St. Louis. However, the Rock Island Lines has petitioned the ICC to hold the merger open for possible inclusion of the Rock Island at a later date. This move by the Rock Island has been vigorously opposed by MoPac management. It is still anticipated that a favorable ICC decision will be announced in 1976.

Opposing Waterway and Coal Pipeline Expansion

MoPac has joined with other western railroads in staunch opposition to proposed expansion of barge traffic on the Mississippi and Illinois rivers and construction of coal slurry pipelines from the West into the MoPac service area.

MoPac has played a leading role in the battle to block construction of a new Alton Locks and Dam 26 on the Mississippi River just above St. Louis. It is viewed as the first step in massive expansion of barge traffic on the Upper Mississippi as well as the Illinois river, through enlargement of the entire locks and dam system.

Railroads, including MoPac, also are fighting legislation which would give private developers the right of eminent domain for the building of coal slurry pipelines.

Both the river expansion and coal slurry projects could divert a substantial amount of traffic away from MoPac if permitted to be realized.

Rail Aid Legislation

President Ford has signed an omnibus rail aid bill called the Railroad Revitalization and Regulatory Reform Act of 1976.

The bill will provide funds for implementation of the new ConRail system in the Northeast and provide loan guarantees to other distressed portions of the railroad industry. MoPac, however, will benefit most directly from regulatory reforms which will permit greater flexibility in setting freight rates and introducing new services, prohibit discriminatory state and local taxation and provide subsidies for deficit branch lines railroads are required to operate.

People

Terminal Task Force Makes Gains

The St. Louis Terminal Task Force, a cooperative venture between labor and management, completed 10 experiments in 1975 at MoPac's St. Louis yards, has five more in progress and 10 more in planning for 1976. The Task Force, sponsored by the railroad brotherhoods, MoPac, the Association of American Railroads and the Federal Railroad Administration, began its program late in 1973 to improve rail efficiency through experimental changes in labor agreements, operating practices, rates and regulations.

As a measure of success, average freight car detention time in the St. Louis Terminal was reduced by 22 per cent in 1975. The Task Force will expand its work to include road haul and intermodal operations.

Key Personnel Changes

Thomas H. O'Leary was elected chairman of the finance committee. Three men were elected vice presidents of the Missouri Pacific System effective December 1. Thomas D. Rodman was elected vice president and controller; John M. Toler was elected vice president-transportation, and John G. German was elected vice president-engineering. Harold M. Hoffmeister retired August 31 as vice president-purchases & materials.

Board Changes

On May 13, J. M. Leathers and W. M. Shapleigh joined the Missouri Pacific Railroad board of directors succeeding J.T. Suggs, retired, and the late T. F. Milbank. On November 20, W. S. Kerr joined the board in place of R. A. Goodson, who reached mandatory retirement age.

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Consolidated Balance Sheet

(In Thousands of Dollars)

Assets	**Dec. 31, 1975**	Dec. 31, 1974
Current Assets:		
Cash and Temporary Cash Investments	**$ 88,314**	$ 82,826
Deposits for Interest, Dividends and Equipment Acquisition	**5,511**	5,640
Accounts Receivable	**76,876**	72,195
Material and Supplies, at average cost	**39,687**	35,986
Accumulated Deferred Federal Income Tax Benefits	**14,818**	13,691
Other Current Assets	**2,328**	2,318
	227,534	212,656
Properties: (Note 1)		
Road	**935,171**	910,487
Equipment	**972,050**	920,369
Miscellaneous	**35,829**	30,958
	1,943,050	1,861,814
Less:		
Accumulated Depreciation		
Road	**134,278**	127,688
Equipment	**372,573**	351,097
Miscellaneous	**11,807**	11,233
Excess of Net Assets (at acquisition) of Consolidated Subsidiaries over carrying value of investments	**53,819**	53,819
	1,370,573	1,317,977
Other Assets and Deferred Charges:		
Investment in Terminal and Other Companies (Note 1)	**41,713**	41,500
Capital, Insurance and Other Funds (Note 6)	**27,547**	18,352
Other	**4,692**	5,735
	73,952	65,587
	$1,672,059	$1,596,220

Missouri Pacific System

Liabilities	**Dec. 31, 1975**	Dec. 31, 1974
Current Liabilities:		
Accounts and Wages Payable	**$ 106,156**	$ 103,619
Current Maturities of Long Term Debt	**35,398**	32,453
Unmatured Interest Accrued	**15,877**	15,155
Interest and Dividends Payable	**8,138**	8,718
Federal Income Taxes Accrued	**8,073**	6,446
Other Taxes Accrued	**13,656**	13,247
Other Current Liabilities	**16,046**	14,263
	203,344	193,901
Long Term Debt (Page 17)	**740,746**	724,845
Other Liabilities and Deferred Credits:		
Accumulated Deferred Federal Income Taxes	**187,830**	181,549
Casualty Reserves and Other Liabilities (Note 6)	**51,842**	42,515
	239,672	224,064
Equity of Minority Stockholders in Consolidated Subsidiaries	**22,455**	20,522
Stockholders' Equity: (Note 2)		
$1 Cumulative Convertible Preferred Stock — No Par Value; Authorized 10,000,000 shares; Outstanding 5,717,903 and 7,754,827 shares, respectively (Owned 58.8% and 60.0% by Mississippi River Corporation at December 31, 1975 and 1974, respectively)	**114,358**	155,096
Common Stock — No Par Value; Authorized 15,000,000 shares; Outstanding 6,789,087 and 4,752,163 shares, respectively (Owned 72.7% and 66.4% by Mississippi River Corporation at December 31, 1975 and 1974, respectively)	**76,185**	35,447
Capital Surplus	**1,451**	1,451
Retained Income (Page 17)	**273,848**	240,894
	465,842	432,888
Commitments and Contingent Liabilities (Notes 5 and 6)		
	$1,672,059	$1,596,220

See Notes to Consolidated Financial Statements, Pages 19-24

Statement of Consolidated Income

(In Thousands of Dollars)

	Year Ended December 31 1975	1974
Operating Revenues:		
Freight	$858,676	$855,217
Switching and Other	29,870	34,640
Total Operating Revenues	888,546	889,857
Operating Expenses: (Notes 1 and 4)		
Maintenance of Way and Structures	121,211	126,726
Maintenance of Equipment	137,531	140,095
Traffic	18,123	18,557
Transportation	357,324	356,379
General	33,505	31,558
Total Operating Expenses	667,694	673,315
Net Revenue from Operations	220,852	216,542
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	66,147	67,141
Equipment and Joint Facility Rents	51,091	51,432
Total Other Operating Charges	117,238	118,573
Net Operating Income (Before Federal Income Taxes)	103,614	97,969
Other Income (Net)	9,649	16,373
Income Available for Fixed Charges (Before Federal Income Taxes)	113,263	114,342
Interest:		
Fixed	34,115	31,663
Contingent	9,986	9,985
Total Interest	44,101	41,648
Income Before Federal Income Taxes and Minority Interests	69,162	72,694
Provision for Federal Income Taxes: (Note 3)		
Current	14,340	13,609
Deferred	5,492	7,058
Total Federal Income Taxes	19,832	20,667
Income Before Minority Interests	49,330	52,027
Less — Income Applicable to Minority Interests	2,615	2,305
Net Income	$ 46,715	$ 49,722
Earnings Per Common and Common Equivalent Share (Notes 1 and 7)	$ 3.74	$ 3.98
Depreciation and Retirement Charges Included Above (Note 1)	$ 45,334	$ 39,297

See Notes to Consolidated Financial Statements, Pages 19-24

Missouri Pacific System

Statement of Consolidated Retained Income

(In Thousands of Dollars)

	Year Ended December 31	
	1975	1974
Balance at Beginning of Year	**$240,894**	$204,067
Add — Net Income	**46,715**	49,722
	287,609	253,789
Deduct — Cash Dividends —		
Preferred Stock — $1.00 Per Share	**6,238**	8,982
Common Stock — $1.20 Per Share in 1975 and $1.10 Per Share in 1974	**7,523**	3,913
Balance at End of Year (Note 2)	**$273,848**	$240,894

See Notes to Consolidated Financial Statements, Pages 19-24

Long Term Debt (Including Maturities in 1976)

(In Thousands of Dollars)

	Interest Rate	Date of Maturity	Changes 1975		Outstanding December 31, 1975 (excluding amounts held by Company)
			Issued	Reduction	
Missouri Pacific Railroad Company					
First Mortgage Bonds (1)	4¼%	1990 & 2005		$ 1,045	$244,382
General Mortgage Bonds (1)	4¾% (2)	2020 & 2030			103,154
Income Debentures	5% (2)	2045			100,016
Equipment Obligations	4% to 11¼%	1976 to 1990	$55,927	14,395	174,098
Bank Loan	7¼% (Prime)	1977 & 1978		3,000	6,000
Texas and Pacific Railway Company					
First Mortgage Bonds	5%	2000			18,961
Second Mortgage Bonds	5%	2000			4
General & Refunding Mortgage Bonds (1)	3⅞%	1985		165	6,663
First Mortgage Bonds (KO&G) (1)	3⅝%	1980			1,429
Equipment Obligations	4⅛% to 11%	1976 to 1989		8,553	65,099
Chicago & Eastern Illinois Railroad Company					
Income Debentures (1)	5% (2)	2054			1,704
Equipment Obligations	5% to 8⅜%	1976 to 1989		4,470	29,976
Other Majority-Owned Subsidiaries	4½% to 7½%	1976 to 1985		5,453	24,658
Grand Total			$55,927	$37,081	$776,144

Long Term Debt Maturing During Each of the Next Five Years	1976	1977	1978	1979	1980
	$35,398	$36,711	$35,760	$31,127	$30,118

(1) *Have annual sinking fund requirements.*

(2) *Contingent interest.*

Substantially all of the properties of the Missouri Pacific System are covered by liens of either the Missouri Pacific Railroad or The Texas and Pacific Railway mortgages or under the companies' equipment obligations.

Consolidated Statement of Changes in Financial Position

(In Thousands of Dollars)

	Year Ended December 31 1975	1974
Financial Resources Were Provided By:		
Net Income	$ 46,715	$ 49,722
Add — Charges (Credits) Against Income Not Requiring Working Capital —		
Depreciation and Retirements	45,334	39,297
Increase in Long Term Casualty and Other Reserves	6,892	7,847
Deferred Federal Income Taxes	6,619	7,749
Income Applicable to Minority Interests	2,615	2,305
Other, Net	915	(2,036)
Working Capital Provided from Operations	109,090	104,884
Salvage from Property Sold or Retired	7,199	16,363
Proceeds from Equipment Obligations Issued	55,927	58,093
Insurance Deposit Decrease	855	
Other, Net	821	
	173,892	179,340
Financial Resources Were Used For:		
Property Additions	103,959	104,800
Reduction of Long Term Equipment Obligations	35,792	32,746
Repayment of Long Term Debt	744	775
Reduction of Long Term Bank Loan	3,000	3,000
Dividends (Including Amounts Paid Minority Interests)	14,443	13,412
Purchase of Securities		1,728
Insurance Deposit Increase		550
Capital Fund Deposit Increase	10,519	357
Other, Net		800
	168,457	158,168
Increase in Working Capital	$ 5,435	$ 21,172
Analysis of Changes in Working Capital:		
Cash and Temporary Cash Investments	$ 5,488	$ (23,691)
Accounts Receivable	4,681	10,341
Material and Supplies	3,701	17,940
Accumulated Deferred Federal Income Tax Benefits	1,127	691
Other Current Assets	(119)	2,869
Accounts and Wages Payable	(2,537)	(13,884)
Payable in Connection With Recapitalization	91	32,748
Current Maturities of Long Term Debt	(2,945)	(3,039)
Bank Loan		3,000
Federal Income Taxes Accrued	(1,627)	(2,236)
Other Current Liabilities	(2,425)	(3,567)
Increase in Working Capital	$ 5,435	$ 21,172

See Notes to Consolidated Financial Statements, Pages 19-24

Notes to Consolidated Financial Statements

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation — The accompanying consolidated financial statements of the Missouri Pacific System include the accounts of the Missouri Pacific Railroad Company and its majority-owned subsidiaries, principally The Texas and Pacific System (96.7% owned) and the Chicago & Eastern Illinois System (78.3% owned).

Investments in less than majority-owned terminal railroad companies (joint ventures) and other affiliated companies, where the Company has the ability to exercise significant influence over their operating and financial policies, are accounted for under the equity method.

Per share data — Earnings per common and common equivalent share include the Preferred Stock as a common stock equivalent on a one-for-one basis. The weighted average number of common shares and common share equivalents outstanding during 1975 and 1974 was 12,506,990. All per share and share amounts reflect the July 5, 1974 five-for-one stock split described in Note 2.

Report of Independent Accountants

Price
Waterhouse & Co.
ONE MEMORIAL DRIVE, ST. LOUIS, MISSOURI 63102

February 13, 1976

To the Stockholders and Board of Directors of
MISSOURI PACIFIC RAILROAD COMPANY

In our opinion, the accompanying consolidated balance sheets and the related statements of consolidated income, retained income, and changes in financial position present fairly the financial position of the Missouri Pacific Railroad Company and its subsidiaries at December 31, 1975 and 1974, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

NOTE 1 (cont.)

Federal income taxes — The accompanying consolidated financial statements include provisions for current and deferred federal income taxes. Current federal income taxes have been reduced by the benefits of tax deductions for accelerated depreciation and amortization of properties in advance of such deductions for financial statement purposes. These benefits have been partially offset by the effects of financial statement expense accruals for casualties and other matters which are not deducted for income tax purposes until paid and equipment repair expenses which are capitalized for income tax purposes. The net current benefit of these timing differences has been offset by a provision for deferred federal income taxes.

Investment tax credit is accounted for under the flow-through method.

Properties — Properties are stated at estimated original cost, primarily determined as of January 1, 1955 by Interstate Commerce Commission valuations, plus additions and betterments at cost and less retirements since the dates of valuations.

The companies follow the straight-line method of depreciation using various group rates prescribed by the Interstate Commerce Commission. Depreciation provisions during 1975 and 1974 were at rates of approximately 3.7% and 3.6%, respectively, for equipment and 2.5% and 2.0%, respectively, for depreciable road properties. However, for rail, ties and other track materials, instead of depreciation accounting, the companies follow an acceptable alternate practice of "replacement" accounting. Under this method, replacements in kind are charged to expense while additions and betterments (improvements) are capitalized. The amounts capitalized are not depreciated and are charged against income only when the related properties are retired. Normal retirements of depreciable property are charged to the appropriate depreciation reserve at cost less salvage. At December 31, 1975 and 1974, consolidated nondepreciable properties, including land and land rights, were approximately $566,000,000 and $556,000,000, respectively.

Excess of net assets (at acquisition) of consolidated subsidiaries over carrying value of investments is not being amortized.

Pensions — The companies have an unfunded, noncontributory pension plan for executives, officials and certain key employees. Related charges to operating expense represent accruals which include normal cost and amortization of prior service cost over a 35-year period beginning January 1, 1966, plus interest on the recorded unfunded pension liability. As of January 1, 1976, the companies have amended their pension plan as described in Note 4.

Casualty losses — Casualty losses not covered by insurance (see Note 6) are accrued and charged to income as they are incurred.

Debt and related expense — Discount and expense applicable to long term debt is deferred and amortized over the lives of the respective issues using the bonds outstanding method. Gain on reacquisition of bonds is recorded as income.

NOTE 2 STOCKHOLDERS' EQUITY:

Effective July 5, 1974, the authorized and issued shares of Cumulative Convertible Preferred Stock and of Common Stock were increased by reason of a five-for-one stock split.

During 1975 and 1974, 2,036,924 and 1,573,683 shares, respectively, of Preferred Stock were converted into an equal number of shares of Common Stock. The Common Stock account was credited with the stated value of the converted Preferred shares which increased, on a per share basis, the stated value of all shares of outstanding Common Stock. The Common Stock has a stated value of $11.22 and $7.46 per share at December 31, 1975 and 1974, respectively.

At December 31, 1975, the Company has outstanding 5,717,903 shares of Preferred Stock and 6,789,087 shares of Common Stock, both classes being without par value. Each share of Preferred Stock is convertible, subject to certain dilution provisions, into one share of Common Stock, and is subject to redemption at the option of the Company on or after January 1, 1976, for $20 per share plus accrued dividends. Both the stated value and liquidating value are $20 per share. The Preferred Stock is non-participating and is not entitled to pre-emptive rights. The Common Stock has a stated value of $11.22 per share at December 31, 1975 and is not entitled to pre-emptive rights. Of the 15,000,000 shares of Common Stock authorized: 6,789,087 shares are outstanding; 5,717,903 shares are reserved for conversion of Preferred Stock; 972,772 shares are reserved for issuance in connection with the proposed merger described in Note 7; and 1,520,238 shares are unissued and unreserved. Each share of Common Stock and each share of Preferred Stock is entitled to one vote per share and such voting rights are cumulative in the election of directors. Stockholders act by a vote of a majority of the outstanding shares of stock entitled to vote except as to certain matters as required by present Missouri law, including certain mergers, which require greater percentages of affirmative votes, and as to certain changes in preference rights which require a class vote of Preferred stockholders.

The provisions of the mortgages and indenture relative to priority of call in each year upon "Available Net Income" (as defined therein) have been satisfied and no restriction under the mortgages and indenture exists on the parent company's retained income at December 31, 1975. However, the agreement under which the Company borrowed $15,000,000 in 1973 from a bank restricts the payment of dividends by the Company and the purchase, redemption or other retirement of any shares of capital stock of any class of the Company, by either the Company or its consolidated subsidiaries. As of December 31, 1975, $54,789,000 of consolidated retained income is not subject to these restrictions.

NOTE 3 FEDERAL INCOME TAXES:

As described in Note 1, provisions for deferred federal income taxes result from timing differences in the recognition of revenue and expense for tax and for financial statement purposes. The sources of these differences and the tax effect of each are as follows:

NOTE 3 (cont.)

Source	Year ended December 31 1975	1974
Excess of tax over book depreciation and amortization	$13,596,000	$15,451,000
Financial statement expense accruals for casualties and other matters which are not deducted for tax purposes until paid	(4,042,000)	(3,770,000)
Equipment repair expenses which are capitalized for tax purposes	(47,000)	(2,754,000)
IRS adjustments of 1971 and 1972 tax years —		
Maintenance of way expenses capitalized	(1,018,000)	
Improvements and repairs capitalized	(1,326,000)	
Other	(1,671,000)	(1,869,000)
Provision for deferred federal income taxes	$ 5,492,000	$ 7,058,000

Total tax expense amounted to $19,832,000 for 1975 and $20,667,000 for 1974, an effective tax rate of 28.7% and 28.4%, respectively. The difference between the effective rates and the federal income tax rate of 48% results primarily from investment tax credit, which has been applied under the flow-through method, as shown below:

	Year ended December 31			
	1975		1974	
	Amount	% of pre-tax income	Amount	% of pre-tax income
Tax expense computed at federal income tax rate	$33,198,000	48.0	$34,893,000	48.0
Reduction in taxes resulting from investment tax credit	(13,351,000)	(19.3)	(13,083,000)	(18.0)
Other	(15,000)		(1,143,000)	(1.6)
Actual tax expense	$19,832,000	28.7	$20,667,000	28.4

At December 31, 1975, investment tax credit carryovers of approximately $22,700,000 are available to offset future years' federal income taxes otherwise payable. Of the $22,700,000 carryover, $2,300,000 will expire in 1978, $3,300,000 in 1979, $3,500,000 in 1980, $8,700,000 in 1981, and $4,900,000 in 1982, if not used.

NOTE 4
RETIREMENT PLAN:

Pension expense as described in Note 1 resulted in charges to operating expense in 1975 and 1974 of $4,323,000 and $4,212,000, respectively. The actuarially computed value of benefits pertaining to retired employees exceeds the recorded pension plan liability by approximately $9,200,000 at December 31, 1975.

The companies have amended their pension plan, effective January 1, 1976, subject to approval by the Internal Revenue Service. The amendments extend pension plan eligibility to substantially all "nonscheduled" (non-union) employees of the companies and conform the plan to the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) which include minimum funding and vesting provisions. Based upon actuarial studies, the estimated value of vested benefits under the amended plan which is not funded or recorded amounts to approximately $19,400,000 at January 1, 1976. Pension expense for 1976 is estimated at $7,000,000, an increase of approximately $2,700,000. Of this increase, $1,200,000 is attributable to the plan amendments while $1,500,000 is related to changes in actuarial assumptions as to interest earnings, salaries and railroad retirement benefits. The minimum funding provisions of ERISA will require an increase in cash outlay for 1976 of approximately $5,000,000.

NOTE 5
LEASED ASSETS AND LEASE COMMITMENTS:

The Company and its railroad subsidiaries lease a general office building and certain equipment under long term and contingent lease agreements. Certain of the Company's leases meet the criteria of a "financing lease" as defined by the Securities and Exchange Commission (SEC). Such a lease, during the noncancellable period, either (1) covers 75% or more of the economic life of the property, or (2) has terms which assure the lessor of a full recovery of the fair market value of the property at the inception of the lease plus a reasonable return.

A summary of information relating to rental expense charged to operations is presented below:

	Year ended December 31	
	1975	1974
	(In Thousands of Dollars)	
Minimum rental expense under long term leases —		
Financing leases, as defined	$ 9,111	$ 5,594
Other	1,481	1,548
	10,592	7,142
Rental expense under contingent leases (net) —		
Hire of transportation equipment	37,067	40,393
Joint facility	5,279	4,694
Computer equipment	2,718	3,722
	45,064	48,809
	$55,656	$55,951

As of December 31, 1975, rental commitments under long term leases were as follows:

	Rental commitments pertaining to			
Periods to which commitments relate	Transportation equipment	Other	Total	Noncapitalized financing lease commitments
	(In Thousands of Dollars)			
1976	$ 8,674	$ 1,847	$ 10,521	$ 9,509
1977	8,685	1,847	10,532	9,509
1978	9,127	1,847	10,974	9,994
1979	9,686	1,847	11,533	10,479
1980	9,294	1,847	11,141	10,376
1981 through 1985	41,142	3,172	44,314	40,309
1986 through 1990	20,252	2,300	22,552	19,706
1991	629	268	897	444
Total	$107,489	$ 14,975	$122,464	$110,326

NOTE 5 (cont.)

The Company's leases on transportation equipment provide options to purchase the equipment at fair market value at the expiration of the leases. The lease on the general office building provides an option to renew the lease for four terms of five years each beginning in 1991 and an option to purchase the building for $6,000,000 at any time during the remaining life of the lease.

The present value of aggregate minimum rental commitments of SEC-defined financing leases was $78,756,000 and $61,939,000 at December 31, 1975 and 1974, respectively. Interest rates implicit in the terms of such financing leases ranged from 4.3% to 8.8% with weighted average interest rates of 6.0% and 5.6% for 1975 and 1974, respectively. On the assumption that SEC-defined financing leases had been capitalized, and the related property rights amortized on a straight-line basis and interest expense computed on the basis of the present value of the declining outstanding balance of the lease commitments, net income would have been decreased $1,590,000 in 1975 and $976,000 in 1974. Under such assumptions, amortization of the property rights would have amounted to $6,687,000 in 1975 and $4,046,000 in 1974 and interest expense would have amounted to $4,636,000 in 1975 and $2,832,000 in 1974.

NOTE 6
CONTINGENT LIABILITIES:

The Company and its railroad subsidiaries are contingently liable as guarantors, together with other owner railroads, for principal and interest of certain obligations of various affiliated companies aggregating approximately $107,800,000 at December 31, 1975. Under terms of a service interruption policy, the Company and its railroad subsidiaries are contingently liable for additional premiums up to a maximum of $21,100,000 in the event of work stoppages on other participating roads.

The Company and its majority-owned subsidiaries have an insurance deductible of $5,000,000 with respect to casualty losses resulting from destroyed equipment, freight loss and damage, personal injury, third party liability and fire and extended coverage risks. As a result, for such losses less than $5,000,000, the Company is not insured. At December 31, 1975 the Company has set aside $5,300,000 in capital, insurance and other funds to be used in the event of major uninsured losses.

In order to comply with Statement of Financial Accounting Standards No. 5 "Accounting for Contingencies" issued in March, 1975, the Company, effective January 1, 1975, discontinued accruing for uninsured future casualty losses relating to the deductible amount. The effect of this change on net income and earnings per share for 1975 and the balance in the reserve resulting from prior accruals were not material.

NOTE 7
PLAN AND JOINT AGREEMENT OF MERGER:

The proposed merger of The Texas and Pacific Railway Company (T&P) and the Chicago & Eastern Illinois Railroad Company (C&EI) into the Missouri Pacific Railroad Company (see page 12 for additional details) provides that all outstanding shares of the T&P and C&EI, except those held by the Missouri Pacific Railroad, will be exchanged for new shares of the Missouri Pacific at the ratio of 9.5 shares of Missouri Pacific Common for each share of T&P outstanding and 1.1 shares of Missouri Pacific Common for each share of C&EI outstanding. Missouri Pacific owns 96.7 percent of the T&P stock and 78.3 percent of the C&EI stock. The merger of the three companies will be consummated as a statutory merger resulting in their complete unification with the Missouri Pacific Railroad.

The Company will account for the aforementioned merger under the "purchase" method of accounting. Earnings per common and common equivalent share for 1975 and 1974 would have been decreased $.08 and $.12, respectively, assuming that the proposed merger had occurred on January 1, 1974.

Missouri Pacific System

Condensed Statement of Consolidated Income For The Five Years Ended December 31, 1975

(In Thousands of Dollars Except Per Share Data)

	1975	1974	1973	1972	1971
Operating Revenues	**$888,546**	$889,857	$753,582	$642,919	$602,620
Operating Expenses	**667,694**	673,315	584,296	508,284	467,809
Net Revenue from Operations	**220,852**	216,542	169,286	134,635	134,811
Other Operating Charges	**117,238**	118,573	97,439	70,737	74,267
Other Income (Net)	**9,649**	16,373	16,070	5,679	5,792
Interest Expense	**44,101**	41,648	38,600	37,107	35,476
Income Before Federal Income Taxes, Minority Interests and Extraordinary Items	**69,162**	72,694	49,317	32,470	30,860
Provision for Federal Income Taxes:					
Current	**14,340**	13,609	6,433	2,681	3,272
Deferred	**5,492**	7,058	10,043	11,426	8,293
Less — Income Applicable to Minority Interests	**2,615**	2,305	1,946	1,733	1,185
Net Income Before Extraordinary Items	**46,715**	49,722	30,895	16,630	18,110
Extraordinary Items, Less Taxes and Minority Interests					(6,116)
Net Income	**$ 46,715**	$ 49,722	$ 30,895	$ 16,630	$ 11,994
Per Share Data:					
Earnings Per Common and Common Equivalent Share	**$ 3.74**	$ 3.98			
Cash Dividends Paid:					
Preferred	**1.00**	1.00			
Common	**1.20**	1.10			
Class A			$ 5.00	$ 5.00	$ 5.00
Class B			20.00	5.00	5.00

Because of the characteristics of Missouri Pacific's Class A and Class B stock outstanding prior to the January, 1974 recapitalization, earnings per share data, based thereon, have been omitted for the years 1971 through 1973. Per share dividends and earnings for 1974 reflect the five-for-one stock split of July 5, 1974.

Management Discussion and Analysis of Statement of Income

Year 1975 vs 1974

Operating revenues were virtually the same as the previous year; however, revenue ton miles were down 12.7%. Rate increases granted during 1975, amounting to 14.5%, were estimated to yield about 13%, after exceptions.

Controlled expense reductions were implemented in 1975 because of generally depressed business conditions resulting in a decline of 9.9% in the average number of employees. Costs continued to rise because of higher prices charged for material and supplies and due to wage increases of 10% effective January 1 and 5% effective October 1 as provided under union agreements. The net result was a decrease of less than 1% in operating expenses.

Other income (net) decreased $6.7 million. This was mainly due to decreases in interest income of $2.7 million, income from less-than majority owned subsidiaries of $1.9 million, and $0.5 million from gain on company bonds reacquired and from an increase of $0.4 million arising from the write-off of receivables from bankrupt railroads.

An explanation of the fluctuation in federal income taxes for the year 1975 as compared to 1974 is included in Note 3 of Notes to Consolidated Financial Statements. The basis of computing the tax and the reasons for any fluctuations in other years are not significantly different.

Year 1974 vs 1973

1974 became a record setting year for the Missouri Pacific System. Operating revenues increased 18.1% over the previous year due to a small rise in revenue ton miles, but mostly due to freight rate increases granted late in 1973 and during the first six months of 1974.

Operating expenses in 1974 increased substantially, up 15.2% over 1973. Wage costs, which were up by 7.5%, plus a significant jump in prices for fuel and other material and supplies accounted for most of the increase.

The increase of $21.1 million in other operating charges was due mainly to a $14.4 million rise in Railroad Retirement taxes and a $4.0 million increase in amounts paid other railroads and private car lines for use of their equipment. The increase in Railroad Retirement taxes was due to an increase in the tax base effective January 1, 1974 and to the railroads agreeing, as of October 1, 1973, to absorb a large portion of the amount previously paid by employees.

Years 1973 — 1971

Operating revenues climbed each year mainly due to the granting of rate increases, but also due to higher revenue ton miles, particularly in 1973 when grain ton miles alone rose 134% over the previous year.

Operating expenses increased considerably during this period because of substantial wage increases granted in labor agreements and higher material costs, especially fuel in 1973.

Other operating charges increased significantly in 1973. This was mainly because of a January 1, 1973 increase in the rate and tax base for Railroad Retirement and due to the October 1, 1973 change previously mentioned. In addition, other operating charges increased due to the use of other railroads' freight cars to offset our shortage of equipment during the big grain movements in 1973.

The year 1973 showed a gain of $10.4 million over 1972 in other income (net). This was attributed to a $3.6 million gain on the reacquisition of long term debt, a $3.2 million increase in interest income and a $2.6 million increase in profit from property sales.

The extraordinary loss of $6.1 million in 1971 is the net amount of an estimated loss on discontinuance of rail passenger operations partially offset by gain on reacquisition of long term debt. Under current accounting principles, the material gain of $4.5 million on reacquisition of long term debt for sinking fund purposes would have increased net income before extraordinary items by $2.3 million. Net income including extraordinary items would remain unchanged.

Computation and Application of Available Net Income

Income of Missouri Pacific Railroad Company and its Wholly-Owned Railway Companies
(as required by the Company's Mortgages and Indenture)
(In Thousands of Dollars)

	1975	1974
Income Before Fixed Charges and After Federal Income Taxes	**$66,624**	$69,605
Income of Wholly-Owned Railway Companies Before Fixed Charges	**3,559**	4,082
Road Property Retired and Credited to Operating Expenses	**(138)**	(1,228)
	70,045	72,459
Less — Dividends of 100% Railway Companies Included in Missouri Pacific Income	**3,682**	600
Total Income Available for Fixed Charges	**66,363**	71,859
Fixed Charges	**24,260**	21,435
Available Net Income	**42,103**	50,424
Capital Expenditures Fund	**10,027**	11,094
Remaining Income	**32,076**	39,330
First Mortgage Sinking Fund	**771**	771
Remaining Income	**31,305**	38,559
Interest on General Mortgage Bonds, Series A	**2,542**	2,542
Remaining Income	**28,763**	36,017
Sinking Fund on General Mortgage Bonds, Series A	**350**	350
Remaining Income	**28,413**	35,667
Interest on General Mortgage Bonds, Series B	**2,358**	2,358
Remaining Income	**26,055**	33,309
Sinking Fund on General Mortgage Bonds, Series B	**338**	338
Remaining Income	**25,717**	32,971
Interest on Income Debentures	**5,001**	5,001
Balance	**$20,716**	$27,970

Texas and Pacific System

(Owned 96.7% By Missouri Pacific Railroad Company)

Statement of Consolidated Income

(In Thousands of Dollars)

	Year Ended December 31 1975	 1974
Operating Revenues:		
Freight	**$160,625**	$159,526
Switching and Other	**3,099**	4,143
Total Operating Revenues	**163,724**	163,669
Operating Expenses:		
Maintenance of Way and Structures	**19,333**	23,995
Maintenance of Equipment	**26,733**	27,037
Traffic	**4,934**	4,883
Transportation	**74,169**	74,128
General	**5,490**	5,283
Total Operating Expenses	**130,659**	135,326
Net Revenue from Operations	**33,065**	28,343
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	**11,859**	11,815
Equipment and Joint Facility Rents	**133**	1,509
Total Other Operating Charges	**11,992**	13,324
Net Operating Income (Before Federal Income Taxes)	**21,073**	15,019
Other Income (Net)	**2,091**	3,669
Income Available for Fixed Charges (Before Federal Income Taxes)	**23,164**	18,688
Fixed Interest	**6,397**	6,155
Income Before Federal Income Taxes and Minority Interest	**16,767**	12,533
Provision for Federal Income Taxes:		
Current	**2,425**	1,021
Deferred	**2,950**	3,687
Total Federal Income Taxes	**5,375**	4,708
Income Before Minority Interest	**11,392**	7,825
Add — Loss Applicable to Minority Interest	**10**	14
Net Income	**$ 11,402**	$ 7,839
Depreciation and Retirement Charges Included Above	**$ 8,704**	$ 8,355

Chicago & Eastern Illinois System

(Owned 78.3% By Missouri Pacific Railroad Company)

Statement of Consolidated Income

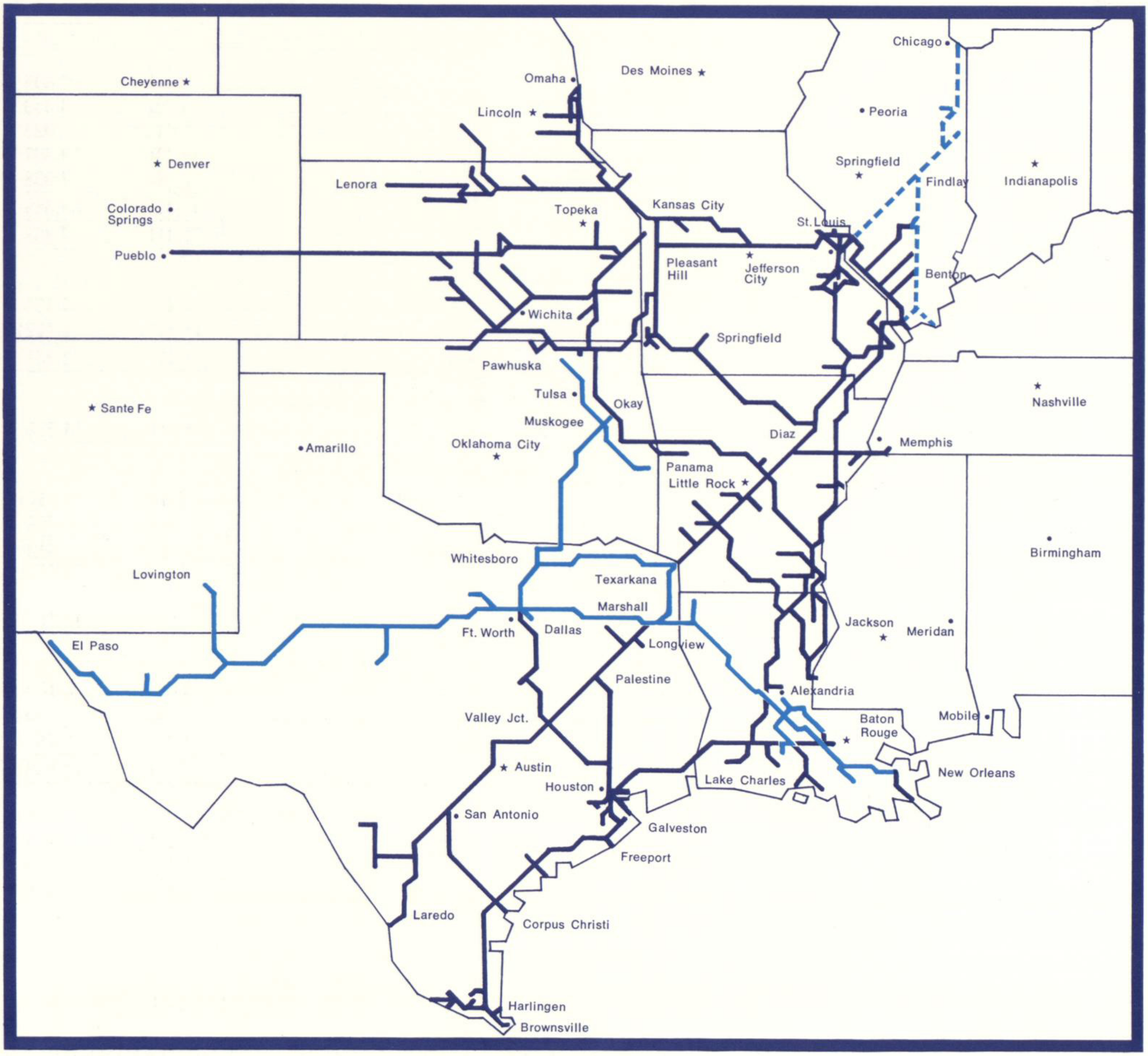
(In Thousands of Dollars)

	Year Ended December 31 1975	Year Ended December 31 1974
Operating Revenues:		
Freight	**$ 57,223**	$ 52,822
Switching and Other	**3,204**	3,600
Total Operating Revenues	**60,427**	56,422
Operating Expenses:		
Maintenance of Way and Structures	**7,017**	7,605
Maintenance of Equipment	**8,722**	8,646
Traffic	**614**	923
Transportation	**19,738**	19,367
General	**2,213**	2,028
Total Operating Expenses	**38,304**	38,569
Net Revenue from Operations	**22,123**	17,853
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	**4,424**	4,370
Equipment and Joint Facility Rents	**(1,147)**	(1,112)
Total Other Operating Charges	**3,277**	3,258
Net Operating Income (Before Federal Income Taxes)	**18,846**	14,595
Other Income (Net):		
Equity Loss of Affiliated Companies, Net	**(677)**	(150)
Other, Net	**840**	692
Total Other Income	**163**	542
Income Available For Fixed Charges (Before Federal Income Taxes)	**19,009**	15,137
Interest:		
Fixed	**2,813**	3,184
Contingent	**85**	85
Total Interest	**2,898**	3,269
Income Before Federal Income Taxes	**16,111**	11,868
Provision for Federal Income Taxes:		
Current	**3,103**	2,735
Deferred	**2,673**	340
Total Federal Income Taxes	**5,776**	3,075
Net Income	**$ 10,335**	$ 8,793
Depreciation and Retirement Charges Included Above	**$ 3,478**	$ 3,437

Mo-Pac System

The Mo-Pac System totals nearly 12,000 miles of railroad supplemented by 18,000 miles of highway routes. It has railroad operations in 12 states in the midwest, south and southwest and through its subsidiaries also performs a wide variety of intermodal services including trucking, piggyback, containerization, less-than-truckload freight and airfreight forwarding.

▬ Missouri Pacific
▬ Texas & Pacific
╍ Chicago & Eastern Illinois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